

Interim Joint Committee on Agriculture and Natural Resources

Subcommittee on Rural Issues

Minutes of the 1st Meeting

of the 2004 Interim

July 14, 2004

The 1st meeting of the Subcommittee on Rural Issues of the Interim Joint Committee on Agriculture and Natural Resources was held on<Day> Wednesday, July 14, 2004, at 10:00 AM, in Room 125 of the Capitol Annex. Representative Mike Denham, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Mike Denham, Co-Chair; Senator Robert Leeper, Representatives John Arnold Jr., Sheldon Baugh, James Comer, Jimmy Higdon, Marie Rader, Rick Rand, Dottie Sims, Roger Thomas, and Tommy Turner.

Guests: Jeff Jones, Kentucky USDA Rural Development (KRD); Commissioner Richie Farmer, Mark Farrow, Mike Judge, and Dr. Mike Grant, Kentucky Department of Agriculture (KDA); Commissioner J.R. Wilhite, Cabinet for Economic Development; and Keith Rogers, Brian Furnish, and Kara Keeton, Governor's Office of Agricultural Policy (GOAP).

LRC Staff: Biff Baker, Lowell Atchley, and Rhonda Carter.

Chairman Denham acknowledged Commissioner Farmer, who thanked the members for allowing him and his staff to testify before the subcommittee.

The first item on the agenda was a presentation by Mr. Jeff Jones, Business Cooperative Loan Specialist, KRD, on the various financing programs offered by the agency. Mr. Jones explained to the members that their programs fell into three major categories; Housing, Business and Cooperative Services, and Community Programs. He then briefly reviewed the objectives and financial allocation of each program.

Mr. Jones noted that KRD has allocated approximately \$260-270 million dollars through June 30, and approximately \$600 million over the last biennium. On average, about half the funds go towards single family direct and guaranteed housing loans.

When asked how farmers could benefit from any of these programs, particularly the Business and Industry Loan Guarantee program, Mr. Jones responded that his agency finances agricultural processing projects and his sister agency, the Farm Service Agency, finances production agriculture projects.

Mr. Jones commented that a considerable amount of federal money for agricultural projects has been funneled into the state because of matching funds from the Phase I Tobacco program. His agency has worked closely with KDA and GOAP. He also discussed the procedures involved in doing non-agriculture projects such as libraries.

When asked if the requests for infrastructure funds had dwindled since Phase I funds have been used for water lines and other infrastructure, Mr. Jones replied that they had not. Because of the number of communities without water and sewer, and with the constant upgrading and replacing of existing lines, Mr. Jones felt like there would be a perpetual need for that type of funding.

The next item on the agenda was a presentation by Mike Judge, Executive Director, KDA Office for Agricultural Marketing and Product Promotion. Mr. Judge gave an overview of the recent reorganization within the department, then gave a detailed accounting of his office.

The Office for Agricultural Marketing and Product Promotion oversees a number of important areas: agritourism; agribusiness recruitment; marketing; shows and fairs; value-added animal production, aquaculture production, and plant production; agricultural education; farm safety; and farmland preservation. Mr. Judge discussed all of these areas and gave examples of specific accomplishments that have been achieved, including the recent agreement by the Kentucky parks system to enter into direct marketing relations with area farmers regarding buying fresh produce and other agricultural products.

Mr. Judge noted that Kentucky has positioned itself well in being able to make advances in biotechnology, particularly in the area of tobacco research. Large Scale Biology in Owensboro and the Kentucky Tobacco Research and Development Center in Lexington have played large roles in researching various uses of tobacco proteins.

Rep. Thomas asked Mr. Judge about the county farm safety program that was initiated a few years ago. Mr. Judge responded that the department has a very successful state farm safety program, and would get back to the members regarding the status of the county program.

The next presenter was Dr. Mike Grant from KDA. Dr. Grant is the grant proposal manager for KDA. His primary role is to identify prospective funding sources and apply for grants from those sources. Dr. Grant briefly reviewed the grants that were received in 2003. He also reviewed the grants that have been applied for in 2004 and gave a status update on those applications. He commented that he anticipated more multi-state regional projects in the future, particularly when applying for USDA grant funds.

Chairman Denham asked about the geographic distribution of funds from the PACE program. Mr. Judge responded that the demand for those funds far exceed the supply, but that the majority of those funds have gone to the Central Kentucky area.

Next on the agenda was a presentation by Commissioner J.R. Wilhite, Department for Existing Business Development, Cabinet for Economic Development. Commissioner Wilhite gave an overview of the cabinet's involvement in working with community programs and regional business parks, the cabinet's marketing strategies regarding recruiting new businesses and helping existing businesses with expansion, and the different economic development incentives the cabinet has to offer. He also reviewed the regional economic development divisions in the state and the different community assistance programs offered by the cabinet.

Next, the commissioner discussed the local government economic development program, which includes the coal producing counties in western and eastern Kentucky and is funded by the coal severance tax. To date, 12 regional business parks have been created under this program. To promote and market these parks, and other sites and facilities throughout the state, the cabinet maintains a website with pertinent data on industrial sites, buildings, and individual communities. There are approximately 28,000 acres and 150 buildings available throughout the state.

Finally, the commissioner reviewed the cabinet's incentive and training programs: the Kentucky Rural Economic Development Act; the Kentucky Industrial Development Act; the Kentucky Jobs Development Act; and the Bluegrass State Skills Corporation.

When asked what the biggest hurdle rural areas face in trying to attract economic development projects, the commissioner answered that it was the local workforce. While infrastructure, sites, and buildings play a large role in determining where a business will locate, the availability and educational attainment of the workforce is a primary consideration. Unfortunately, rural areas in general are challenged in that area.

The commissioner noted that existing shell buildings can be an attractive incentive to a prospective business, though it usually takes about 3 to 4 years to market one. Approximately half of the companies that contact the cabinet are looking for existing building space.

Commissioner Wilhite stated that the cabinet made contacts with about 150 companies last year and about 50 new businesses located in the state. There were also over 50 existing business expansions in the state. He wasn't sure how many of the businesses were located in rural areas, but he did point out that Kentucky ranked in the top 10 in new businesses and business expansions in 2003. He also said that regional industrial parks are helpful in rural areas because where one county may not have the resources to build a park, multi-county agreements can be successful when the resources of several counties are combined into one project.

When asked by Chairman Denham, the commissioner told the members that the cabinet works with other agencies as economic development projects are considered, including USDA, KDA, and GOAP.

The commissioner noted that globalization has probably had a disproportionate effect on the rural areas of the state because the types of jobs that have gone overseas are typically located in rural areas. However, also because of globalization, there has been an increase in Kentucky's export business. It is estimated that approximately 35,000 jobs are required to produce the goods and services necessary to meet the export needs of our state. Commissioner Wilhite added that when there is a closure in a community, the cabinet works with that community to try to replace the loss.

The next item on the agenda was a presentation by Keith Rogers, Executive Director, GOAP. Mr. Rogers reminded the members that 65% of the Phase I tobacco settlement money is allocated for state projects and 35% is set aside for county model programs for direct cost-share distribution to individual farmers. To date, over \$67 million in county funds has been approved in 108 counties, with a large portion of the money being targeted for infrastructure improvements such as cattle handling facilities and hay and grain storage facilities.

To illustrate the effect that the Agricultural Development Board has had on rural development in Kentucky, Mr. Rogers profiled three projects that have recently been approved by the board that utilized state funds: Little Kentucky Smokehouse; Lake Cumberland Milling; and McDowell's Farm Salsa. Each of these projects enables farmers from tobacco-dependent communities to add value to their farm product or to receive a premium for their product.

Mr. Rogers then discussed the Northeast Kentucky Entrepreneurship Program. This program is designed to train facilitators to go into 19 northeastern counties and work with local entrepreneurs. The facilitators will undergo a two-year training program. The goal is to train 30 facilitators per year for two years. The first 30 facilitators will begin their training in September.

To conclude his presentation, Mr. Rogers told the members that the board has approved over 1,750 state and county projects for an investment of over \$160 million. The board is also in the process of having these projects analyzed to determine the impact they have had on local economies.

In response to questions, Mr. Rogers stated that the formula that is used to distribute county funds to individual counties takes into account the county's tobacco dependency. He also noted that in order to address the problem some individuals were having with the 50% match requirement, the board now allows a county agricultural development council to lower the farmer portion of the match on model programs to 25% if it chooses to.

Mr. Rogers told the members that the board has just recently approved its first revolving loan fund program in Ohio County and that funds from that program can be used by farmers as their match for model programs. The Kentucky Agricultural Finance Corporation will administer the program.

There being no further business, the meeting was adjourned.